

THE CITIZEN OF INDIA SERIES

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I	1 Citizenship	By Kesari Singh
	2 Political Science	"
	3 Indian Construction	"
	4 Democracy in India	"
	5 The world state	"
II	1 Public Finance	"
	2 Treasury and accounts	"
	3 Currency	"
	4 Banking	"
III	1 Land Revenue administration	"
	2 Agriculture	"
	3 Rural uplift	"
	4 Co-operation	"
	5 Famine Administration	"
IV	1 Law	"
	2 Penal Code	"
	3 Criminal Law	"
	4 Civil Law	"
	5 Law of Evidence	"
V	1 Economics of Industry	"
	2 Indian Industries	"
	3 Commerce & Trade	"
	4 Indian Trade and aids to Trade	"
	5 Planning for development	"

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Ganesh Ghati

Udaipur R.)

LIST OF CONTENTS

Part I

- (1) Introductory

- (2) Systems of public finance

Part II

- (1) Public Expenditure

- (2) Classification

Primary बारी खर्च

Secondary दिनांक खर्च

- (3) Primary expenditure

- (A) Means of the defence

- (B) Civil Administration

(a) The head of the Government.

(b) The Central Government.

(c) The states Governments.

(d) The District Governments.

(e) The functions of the Governments.

- 1) The Executive Functions

- (2) The Legislative functions

- (3) The Judicial functions.

Police

Law courts

Jails

Reformatories

(C) Interest on public debt

- (4) Secondary Expenditure

- (A) Expenditure for social welfare

- (a) Education

- (b) Public health
 - (c) Famine relief
- (B) Expenditure on commercial undertakings.
- (C) Miscellaneous expenditure.

Part III Public Revenues

- (A) Income from property
 - (a) Land Revenue
 - (b) Forest Revenue
- (B) Income from commercial undertakings.
- (C) Miscellaneous income
- (D) Income from taxation
 - (a) Adam Smith's canons
 - 1. Canons of Economy
 - 2. , , , Equity
 - 3. , , , Certainty
 - 4. , , , Convenience
 - (b) Forms of taxes
 - (1) Proportional or progressive
 - (2) Direct or indirect
 - (3) Specific or ad valorem
 - (4) Light or heavy
 - (c) Articles of taxation
 - (1) Physiocratic Theory

- (2) Social Dividend theory
- (3) Faculty Theory
 - (a) Income
 - Rent
 - Wages
 - Interest
 - Salary
 - Profit
 - (b) Expenditure
 - Customs duty
 - Excise
 - (c) Property
 - (d) Taxing authorities
 - (1) Municipalities
 - (2) District and Local Boards
 - (3) Port trusts.

Part IV Public Debt

Part V Financial Administration

- 1. Budget
- 2. Its preparation
- 3. Its sanction
- 4. Its execution.
 - (a) Collection of revenues
 - (b) Transmission to Treasuries
 - (c) Methods of expenditure
 - (d) Maintenance of control

(e) Preparing accounts

(d) Audit

(5) Revised estimates and reappropriation

Part I

INTRODUCTORY

Finance may be defined as a science, which investigates and treats of monetary transactions. In practice it devolves itself into consideration and regulation of income and expenditure. It is divided into two classes:

Private finance and
Public finance,

Private finance deals with income and expenditure of individuals and we are not concerned with it here.

Public finance is the name given to the science dealing with the finance of a Government. It regulates the raising and spending of Government funds.

2. Systems of Public Finance

There are two systems of public finance.

The old and the new.

The old system is the system of the pre-determined income, which is more or less a fixed quantity and is subject to little variations. The finance department has to ascertain what income is likely to be available and then to adjust the expenditure under the various heads of the budget in such a way as to get the greatest advantage from and make the best use of the funds that are available.

In the new system it is the expenditure, which is determined beforehand. and the income is made to adjust itself to the expenditure.

The budget of expenditure is prepared on the basis of the needs, which are considered to be worthy of being provided for; the expenditure has to be gone into without reference to the question whether there are funds available to meet it or not. It is the business of the Finance Department to find out the ways and means of securing the revenue required to meet such expenditure.

An estimate as correct as possible is made of the yield of settled sources of Revenue; rates of certain existing taxes are then varied and sometimes extra taxes are proposed in order to raise the income as high as is required to meet the necessary expenditure. If there is some very extraordinary and heavy item of expenditure to provide for, which it is impossible to meet by variation, or by extra taxation it has to be met by raising a loan.

In short, the effort is really to find out an easy path by which to reach a certain goal viz, to find money in order to meet the expenditure, which has been determined to be made. The wisdom of the Finance Department lies in discovering the least onerous and the least costly methods of raising the required funds.

It is safe to assume that the latter system of finance has come into existence with the growth of democracy,

Part II**Public Expenditure.**

Public expenditure is required to be made in order to meet the requirements of a Government just in the way private expenditure is required to satisfy the needs of a family or individual but while private expenditure is determined by the head of the family or the individual, public expenditure is to a great extent determined by historical conditions and previous legislation which are considered while providing for needs which are existent or about to rise.

2. Classification

Public expenditure is divided into two classes:—

- a. Primary expenditure and
- b. Secondary expenditure.

Primary expenditure is that expenditure which the Government is obliged, before every thing else, to undertake.

Secondary expenditure is that expenditure which is no doubt necessary but not as absolutely essential as the first.

3. Primary Expenditure.

Primary expenditure embraces three well known heads:—

(A) Means of Defence -

(B) Civil Administration.

(C) Interest on Public Debt.

(A) MEANS OF DEFENCE

The foremost duty of every Government is to arrange its self-preservation and this is only possible by providing for the means of defence which are very different in different parts of society and grow gradually more and more expensive as the civilization advances. It is absolutely essential that specially trained sections of the population be set apart for Military, Naval and Air services equipped with most modern arms and supplies. Well equipped forces mean security from an aggressive neighbour. It is therefore incumbent on all Governments to provide for the most up-to-date and adequate means of defence as a prime necessity.

(B) CIVIL ADMINISTRATION

When defence against the possibility of danger from the aggressive out-sider has been provided for, attention naturally reverts towards organisation of the Civil Administration so that the people may have peace and opportunities for development. The head of the Government naturally comes first.

(a) THE HEAD OF THE GOVERNMENT

No matter what the form of the Government the sovereign must be supported as he, being the head of the state, is frequently called upon to discharge ornamental functions, and has to hold a position higher than the wealthiest of his subjects. Traditional sentiments also demand that the head of the Government should hold a social position of great prominence and provision should be made for lavish (but not unreasonably high) expenditure which would enable him to maintain his position and discharge his functions.

(b) THE CENTRAL GOVERNMENT,

After the sovereign comes the Central Government with its various branches.

The functions of the Government are broadly speaking three in number.

- (1) The Executive Functions.
- (2) The Legislative Functions.
- (3) The Judicial Functions.

(1) THE EXECUTIVE FUNCTIONS

The Executive functions are carried out by the Executive Council. The work is divided into a number of departments and at the head of each department or group of departments there is a member of council who is in charge of them. Below him are his Ministerial staff,

(2) THE LEGISLATIVE FUNCTIONS.

The legislative work is carried on by means of a Parliament which consists of two Houses. The Upper House and the Lower House. Sometimes there is only one House. How laws made is briefly described in a booklet of this series No. IV-I.

(3) THE JUDICIAL FUNCTIONS

It is a prime necessity for a Government to maintain peace in the country and thereby give internal security to the subjects. Where people live together differences are sure to rise and it is the duty of a government to safeguard each member of its society from the injustice or oppression of any aggressor.

POLICE

The Government therefore has a Police Force in hand to suppress disorder and bring criminals to justice. The Police force should be efficient and able to fulfil its object. It should have a sufficient number of men and officers in proportion to the area of the country and to the population of the same.

LAW COURTS

But a mere physical protection of life, person and property of the people with the help of the Police force cannot be all sufficient. The next great requisite of a good Government is a proper machinery for the administration of justice i. e. a series of law courts with powers graduated for admitting civil

and criminal cases and deciding justly all the numerous disputes and differences which certainly rise amongst the people.

The courts, their gradation, and functions are briefly described in further booklets of the series.

The Civil Courts are not touched here but we have to see how Criminal Courts have their sentences executed.

JAILS.

When the Police and the Courts have dealt with the criminal or dafaulter, he is handed over to the Jailer and it is in jail that he gets the punishment to which he is sentenced in order to prevent him from being dangerous to the society or giving vent to his nefarious activities again or to punish him for his default.

When a man is sent to Jail he is besides being confined there engaged and trained in some useful work.

REFORMATORIE

Boys of under 18 years of age are sent to Reformatories and are trained there in some useful industry and also given some schooling.

(c) STATES GOVERNMENTS

Under the Central Government are the State Governments and each state is generally controlled by a Governor-in-Council with necessary staff. Here also the work of administration is divided amongst the members of the Governor's council who have their own separate staff to run the departments committed to their charge. Such states have their own Parliaments or Legislative assemblies.

(d) DISTRICT GOVERNMENTS

Each State is again divided into a number of Districts and at the Head of each District there is an officer who has his own staff. Sometimes a number of districts are put in charge of an Intermediate Officer.

It will thus be seen that along with the means of defence provision for carrying

on civil administration is a matter of prime necessity,

(C) INTEREST ON PUBLIC DEBT.

States, like private individuals, have sometimes to incur abnormal and extraordinarily heavy expenditure, and if a Government fails to meet this from ordinary revenues and increased taxation it stands in the need of borrowing and a public loan is then floated. But when once a loan has been taken it is a first charge on the Revenues of a state to pay interest on that and therefore such payment has to be classified as an expenditure of prime necessity.

4. Secondary Expenditure.

When the Primary expenditure has been set out it may safely be said that all other expenditure, of whatever sort, is to be included in the secondary expenditure. It may be classified as:--

- 1 Expenditure for social welfare, for

example, on education, public health, famine relief etc.

- 2 Expenditure on commercial undertakings, for example, on Railways, Irrigation, Tanks, Wells, Canals, Post and Telegraph etc.
- 3 Miscellaneous expenditure under which all other items of expenditure may be included.
These items will now be considered in some detail.

1. SOCIAL WELFARE

Expenditure under this head, though technically distinguishable from primary expenditure is very near to it and can be taken to be almost equal to it. The foremost is education.

(a) EDUCATION.

The term education should be understood in a very wide sense, and should be taken to include not only the imparting of knowledge but the development of character

and of human faculties and activities in the best way possible. Money spent on education tends to make the people more intelligent and trustworthy. The more they are educated the less are they liable to the delusion of false enthusiasm and superstition. They become more orderly and peaceful. It may therefore be taken as an axiom that expenditure made on providing sound education for the people is justified by the higher standard of living that prevails amongst the educated and the greater efficiency of the work that they can perform. Modern Governments, therefore, realise that high level of literacy and therefore of intelligence amongst the people is a very desirable object to aim at.

(b) PUBLIC HEALTH

The department of Public Health is concerned with the physical welfare of the people just as the department of education is concerned with the intellectual welfare, and it is no less

important. Where people generally live close to each other there come into existence many undesirable conditions, which they cannot individually remedy. Moreover some of them from time to time fall ill and require the services of people trained in medicine and surgery, and besides this, epidemics break out now and again which require special activity on behalf of the Government in meeting them. It is therefore necessary for Governments to have a department of Public Health which may be taken to have three branches.

1 Sanitation.

The business of this department is to prevent diseases. It has to find out the causes of disease. Much disease is due to dirt. It has therefore to remove dirt and refuse from the streets to maintain general cleanliness, to keep the drains in good order, to arrange for the abundant supply of fresh air and so forth. One measure of the greatest importance is the provision of a sufficient and pure supply of water for daily use.

2. Vaccination, inoculation, and similar other measures to combat special diseases are point of no less importance, and
3. Hospitals and dispensaries where sick persons may easily obtain medical advice, medical treatment and required medicines.

(c) Famine Relief

When a famine occurs, it at once becomes apparent to the people and the Government that trouble is in store for them. Society is entirely disorganised and every kind of error suddenly prevails in the land. The normal course is so revolutionised that people starve in large numbers and unless the Government is ready before hand to meet it, it is as helpless as the people themselves. A provision is therefore necessary for every year in the budget which may be used to meet as far as possible, the famine if it occurs, or allowed to grow into a fund against the famine if it does not,

The three important subject under social welfare have now been dealt with and leaving

aside others of minor importance we may now pass on to expenditure on commercial undertakings.

3 Commercial Undertakings.

A Government may sometimes take in hand commercial business. When a work cannot be well and efficiently done by private enterprise the Government generally does it. Moreover, there are some works of great public utility and no civilised Government can afford to be without them even though sometimes they bring in no monetary profit enough to justify expenditure there on and it has always been the policy of Government to undertake Post and Telegraph services and end to build Railways and Irrigation works etc. for the sake of the advantages that arise from their existance irrespective of the fact whether they bring in any profit or not.

(c) Miscellaneous Expenditure

The last item of secondary expenditure is miscellaneous expenditure under which all other item of expenditure may be included.

3. Commercial undertakings.

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(C) Miscellaneous Expenditure.

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In this way all expenditure necessary to be incurred is laid out, and the finance department has to find ways and means to raise income to meet it.

PART. III.

PUBLIC REVENUES

1. Classification.

The income of a State is generally made up of different elements which can be classified as follows:—

1. Income from property, e. g. lands and forests.
2. Income from commercial undertakings e. g. Canals, Railways, Posts and Telegraphs.
3. Income from miscellaneous sources.
4. Income from taxation.

Now let us take the various sources of revenue as classified above, and deal with them one by one.

A. Income from Property.

(a) Land Revenue.

Income from land is called Land Revenue. Land Revenue is the largest and by far the most important source of income to the Government. (please see Land Revenue Administration Booklet no III-1.)

(b) Forest Revenue.

A careful organisation of forests affords an annual income to the Government from the sale of timber and some minor produce of spontaneous growth. Forests are generally divided into three classes:—

1. Reserved Forests.
2. Protected Forests and.
3. Public Forests.

The Reserved forests are intended to be permanently maintained for the supply of timber, fuel and other produce. The rules applying to their use are naturally strict,

The Protected forests may be either in a State of transition to Reserved Forests or

intended to remain permanently as such. The rules in these are less strict and people round about are allowed to exercise certain right in them.

The Public Forests are really given over for the use of the public and there are practically very few restrictions to the people.

B. Income from Commercial undertakings.

It has already been said that the Government undertakes some Commercial works and an income arises from them. But it is not always for income that they are taken up. The convenience of the public is aimed at and they are undertaken even though there may be little or no profit from them; but there is nearly always some income to the state from these sources and many a time it is substantial.

C. Miscellaneous Income.

The income from taxation is left to be taken up after the income from miscellaneous sources is considered as the subject is a highly technical one and will require fuller treatment.

Income from Miscellaneous sources

includes all items which are not included in taxation and the two big sources of income mentioned above.

D. Income from Taxation.

Taxation is a necessary contribution made to Government for the purpose of making up the deficit in the Revenue in order to meet the expenditure essential to carrying out its functions. There is an increase in the taxation when the expenses are greater and a decrease when they are less. But it should be remembered that the increase or decrease does not always depend on the actual economic necessities only. There are also a number of social and political considerations, which cannot be neglected. It may therefore safely be laid down that there is no country now in the world in which the whole system of taxation is one logically worked out from first principles. All the same there are rules to regulate the imposition and increase or decrease in taxation, and four of them known as Adam Smith's canons of taxation are given below:—

(a) Adamsmith's Canons of taxation.

I. The Canon of Economy.

Every tax ought to be so contrived as to take out of the pockets of the people as little as possible, over and above what it brings into the public treasury.

Economy in taxation has more than one significance. The purely economical tax is that which is most easily assessed and collected, and at the same time is least harmful to those who pay it. Some taxes may be too costly to collect, that is, the total yield of the tax may be small as compared with the expenses that the Government is put to in preventing evasion of payment. Other taxes may not be costly to collect but may give rise to political discontent of such a nature as would increase the difficulties of the Government, necessitate a greater expenditure on the services connected with justice and police. Such taxes cannot be said to be economical,

There may be other taxes that may not be economical. They might be incidentally benefitting some industries or doing injury to

others and if the loss to the injured trade be greater than the gain to the protected one the tax is mischievous in its nature and so uneconomical.

By the account given above it would be clear that a tax should be easily assessed and collected, and should take from the pockets of the people as little above what goes to the public purse as possible.

2. The Canon of Equity.

The subjects of every state ought to contribute towards the support of the Government as nearly as possible. in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of the State.

The principle of equity actually means equality of sacrifice. No tax is a just tax unless it leaves individuals in the same relative position in which it found them. This dictum holds good only when a tax is looked at in conjunction with the rest of the system. of which it forms a part. Any particular tax taken by itself and in isolation from other

will probably fail to stand the test. Each of the taxes forming the system may apparently be unjust:—one tax may fall heavily on one section of the population while another tax may fall heavily on another, and a third on still another, and so on, but all taken together, they should so counter balance each other that the system as a whole cannot conspicuously be unjust. This is the interpretation that should be given to what is called equitable taxation.

3. The Canon of Certainty.

The tax which each individual has to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the amount to be paid ought to be clear and plain to the contributor and to every other person.

Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax gatherers, who can either aggravate the tax upon any abnoxious contributor or extort by the terror of such aggravation, some present or perquisite for himself. The uncertainty of taxation favours corruption.

4. The Canon of Convenience.

Every Tax ought to be levied at the time or in the manner, in which it is most likely to be convenient for the contributor to pay it,

(b) Forms of Taxes.

Various forms have been propounded in the past and some are given below.—

A tax may be

1. Proportional or progressive.
2. Direct or Indirect.
3. Specific or ad-valorem.
4. Light or heavy.

Let us consider each of these forms one by one.

I. Proportional or progressive.

If A's wealth is estimated at Rs. 100/- and B's wealth at Rs. 1,000/- ought B to pay just ten times as much or ought he to pay more than ten times as A. The point on which answer depends, is whether the sacrifice of Rs. 10/- on the part of B, is equal to or less

than the sacrifice of Rs. 1/- on the part of A. The tax would be proportional if B pays ten times as much as A and it would be progressive if B would give to the Government more than ten times of what A gives. The belief in the justice of progressive principle is widely held, as the sacrifice of poor men is comparatively great when they pay a tax in proportion to rich men.

2. Direct or Indirect.

By direct taxes are meant those, which are paid to the Government by the people who themselves bear the burden of loss involved in the payment. By indirect taxes are meant those the burden of which is borne by those who do not themselves make the actual payment to the Government. An income tax paid by a Government servant, or any other person is a direct tax while a customs duty paid by a merchant is an indirect tax because the income-tax is paid by the servant himself while the merchant though he pays, customs duty, ultimately indemnifies himself by raising the price of the goods and making the buyer of his goods pay. The direct tax is usually very

easily levied and very simply calculated. The person taxed knows exactly how much he has to pay and to whom. He pays the proper amount to the proper person and the whole thing is over. The indirect tax on the other hand tends to escape the notice of the consumer who is the ultimate tax payer and the burden imposed is more or less concealed.

3. Specific or ad Valorem.

A tax is said to be specific when a commodity is taxed so much per unit, and it is said to be ad-valorem when the tax is levied as a percentage of the estimated value of the particular goods.

The great advantage of specific form of duties lies in the economy of collection. Expert valuers are not required at the customs houses; the task of officials is limited to that of ascertaining the amount and not the qualities of the goods which they have to handle. Moreover the traders and other dealers are never in doubt as to the duties that they will be called upon to pay, and so are never subjected to the inconvenience, to which uncertainty as to what charges they will have to meet is liable.

The specific duty suits well, where raw material is brought in large quantities; but an ad-valorem duty is a necessity where manufactured goods, for example, clothing and machinery, are imported. In case of these a definite amount cannot be charged unless a schedule be drawn up enumerating many thousands of articles and even then that schedule would require a continual revision as prices change and new types get introduced.

4. Light or Heavy.

As a matter of general principle the tax should always be light, as light as possible, but there are certain things, which are harmful to man-kind and so their consumption is taxed as heavily as possible in order to divert the consumption. Take an illustration. The tax on a necessity for life, for example, salt is, and ought to be very light, while a tax on intoxicating drugs should be as heavy as possible in order to control its consumption.

To recapitulate, the taxes might take one of the following forms:—

They may be proportional or progressive, direct or indirect, specific or ad-valorem, light or heavy. That form will have to be applied, which would bring into play in the best way possible the canons enumerated.

(c) Articles of Taxation.

It is only when considering what is to be taxed that the theories of the form, in which taxes are to be raised, will have to be applied. A brief account of some theories of "what to tax" should not be without interest.

1. Physiocratic Theory.

The Physiocrats were a set of Philosophers of the old school of Economists in France who held that land only should be taxed as it yields a return much above the cost of the production.

2. Social Divident Theory.

The followers of this theory say that the members of a community should contribute to the public purse in proportion to the benefits they may derive from the protection of the state.

se theories have long been discarded.

The physiocratic theory cannot be accepted because land alone cannot supply sufficient revenue. If it is made to do so, the tax would become unequitable in as far as those persons who have no land will contribute nothing towards the expenses of the Government.

The social dividend theory cannot be allowed to be held because the people who derive the greatest benefit from the protection of the Government are those who are old, weak e. g. women, children, old men, ignorant men and so on. These men cannot be asked to contribute more than the well-to-do and wealthy people for the simple reason that they enjoy greater protection of the Government.

When these theories could not be made agreeable, another basis for taxation was found and it was Faculty.

3. Faculty Theory.

It is theoretically a very just tax and can be expressed in the following words:—

Each member of a community should contribute to the income of the Government according to his faculty, that is, he should serve the Government in the degree in which he has the ability to serve himself.

In order to understand this, let us contemplate a primitive community where occupations are few, industries simple, members of the society nearly all on one level, and the wants of the Government limited; suppose now a work of general concern is required to be constructed; for example, a road for communication with neighbouring settlement. What would be the rule of contribution? can it not be at once said that all ablebodied persons should turn out and each men work according to his ability.

This then is the ideal coommodity for tax. It would afford a prefectly satisfactory measure of the obligation of every citizen to contribute to the revenue of the Government. But the actual work of imposition of this tax is well nigh impossible. These are the days of industrialism. People live in the complex stage of economic life. Occupations

have multiplied, and forms of employment have become diversified. Members of society occupy innumerable different positions and the wants of the Government are of various kinds. In these circumstances, if the Government were to call upon each member of its community by turns and to ask him to serve it in person for a definite period of each year the difficulties attendant on the imposition of the tax on faculty would take no time in making themselves felt: what is possible in the primitive society is very difficult to attain in its existing form. Modern statesmen have, therefore, thought of taxes on three things, and they have considered these to be the most economical and equitable and they are as near an approach to a tax on faculty as possible. These three things are:- Income, Expenditure and Property.

(d) Income.

Let us take income first. Income may be taken to be the sum total of the revenue of an individual and this income has got many different names according to the source from which it springs.

The man who owns land, receives income in the form of rent, the man who labours, receives wages, the man, who invests capital, receive interest; the man who organises industries, or enters into service receives salary; the man, who taken the risk to be incurred in the running of a business receives profit.

As regards rent, the opinion is unanimous that it should be taxed.

As regards wages, the people are disposed to exempt them from taxation. Poor people would feel a tax very heavily, and labourers are generally poor. Moreover no tax can be said to be a just tax, which is imposed on income which is hardly or only sufficient to purchase bare necessities of life. But some people are inclined to make no exemption; they propose a light tax on things, which are necessary for subsistence and in a form, which the labourers will not feel.

Interest, salary and profit may be considered together and it may be said that a tax is generally levied on them, when they are received in fairly big amounts. It is graduated in such a way that the rich pay on a higher

scale than those who are only moderately well off, the very poor being exempt altogether. It is a direct tax.

B. Expenditure.

The second of these things which ought to be taxed is expenditure. A tax on expenditure is technically a tax on consumption. Most of the taxes on consumption fall under one or the other of two heads, customs duty and excise.

Customs duty

Customs duty falls on commodities as they enter or leave the country. It is therefore imposed on imports and exports. This is an indirect tax of a convenient kind which falls on people of all classes particularly the middle and higher classes and has the advantage of being substantially productive. It is levied both specifically and advalorem. The duty on goods and manufactured articles is ad-valorem but on raw material and food grains it is specific.

Excise.

Excise may be defined as a tax levied within a country on commodities destined for

consumption, Articles which are regarded as necessities, and which naturally have, or can have, a wide consumption are sometimes taxed in order to obtain large revenues. The tax on salt in India was an example but this tax has now been abolished.

Heavy duties are charged on articles of luxury and drugs An excise is imposed on them which yields a good income,

C. Property.

The third thing proposed above for putting a tax on is property. There is taxation on inheritance and there are succession duties.

Houses and properties in municipal areas are taxed by Municipalities, and judicial fees are charged, such as registration and stamp fees, when properties change hands or there is a dispute about them.

The following four rules summarise the articles that are taxed and the form the tax takes in each case.

1. There is a tax on income beyond a certain amount, and this tax is direct.
2. There

is a tax on expenditure and this exists in the form of customs and excise duties. It is an indirect tax and is levied by specific and ad-valorem fees. 3. There is a tax on property also and there may be a tax on inheritance, besides house rates, stamp and registration fees etc.

D. Taxing authority.

It is important to know who is the taxing authority.

The highest authority which can impose taxes is the Government itself in the Legislative Department. It is sometimes delegated to States Government and they can also impose certain taxes.

Besides these are three classes of local authorities who can impose taxes, namely;

1. Municipalities.
2. District and local Boards and
3. Port Trusts.

The chief sources of income of these institutions are octroi duties; cesses on agricultural land, taxes on houses and lands,

water, conservancy and lighting rates, tolls on roads and ferries, taxes on animals and vehicles and in some places, taxes on professions and trades also.

PART. IV.

PUBLIC DEBT

It has been said above that when the sources of fixed revenue are exhausted Government takes to either increased taxation, or new taxation or both; but when any thing so extra ordinary comes into existence that changes in taxation or new taxation cannot be expected to meet it, money is found for that emergency in a special way, and that way is to float a public loan.

The practice of old Governments was to maintain a special cash reserve available for immediate application to abnormal purposes should it be needed. This could only be possible by accumulating treasure in advance, i. e. by collecting more revenue each year than was needed. This practice is now obsolete in Governments which follow the modern system.

It was very costly and it kept the treasure unused for an indefinite length of time. Modern nations have instead taken to borrowing in case of emergency.

A Public debt like a private one, does not create new wealth and it is not a short cut to prosperity. It should be resorted to only under special conditions which stated in brief may be the following.

1. For permanent productive investments, for example, for the construction of such public works as irrigation, canals and railways etc.
2. For meeting an extraordinary emergency like war and.
3. For covering cases of sudden temporary necessity, for example, large deficits in the expected income and so on.

Its forms :

Government loans are floated in many forms. Amongst the more common are:—

1. Circulating notes or paper money not bearing interest.

2. Warrants giving orders upon the Treasury to pay money which may or may not bear interest.
3. Short time notes bearing interest.
4. Long time notes, bonds or securities bearing interest.

Summary : We have now seen that the modern Governments determine their expenditure first and then raise income to a figure sufficiently high to meet the expenditure. This is done first by raising the rate of existing taxes and imposing new taxes but if it is not possible to meet the whole demand of the Government by this method, a loan is raised and the Government is put in funds in order to meet all its needs.

Now, the only and perhaps the most important point that remains for consideration is the task of actual adjustment of income and expenditure or in other words financial administration. The adjustment takes place every year by means of the Budget and the work of the Government is regulated by its execution according to set rules. Will now consider the Budget and its execution in the next part of this booklet.

*Part V.***1. Budget.**

The Budget is an annual statement of the adjustment of expenditure and income of a state prepared by the public authorities.

2. Its preparation.

Some time before the fiscal year begins (dates being different in different countries) various heads of departments of the Governments propose their estimates of expenditure and income. These estimates contain the actual income and expenditure of the previous year and the estimate of income and expenditure of the ensuing year. If there are any increases or decreases explanations are rendered therein.

The departments then forward these to the Finance Department, where all the estimates undergo a careful scrutiny. The new demands are carefully considered and proposals are made for finding ways, and means for meeting them or such of them as are held to be necessary. The Finance Department then prepares on their basis an estimate of its own

in which the expenditure of the whole state and the calculated receipts from each source of revenue are classified under certain heads. The budget is then ready for presentation.

3. Its sanction.

When the budget is prepared it is submitted to the Supreme Authority of the Government with a brief but clear statement of what the expenditure will be, what it is expected the revenue will be, what taxes may be remitted or changed, and what new taxes if any are needed in order to make the income equal the expenditure. Then follows discussion on the budget and consideration on various points dealt with. Consideration of the budget is one of the principal tasks of the Supreme Authority and it involves the study of a great number of detailed points which must occupy a great deal of time and in certain cases may give rise to controversies and disputes. Decision is after all arrived at after considering the question from the various points of view and sanction is then accorded after making modifications if any appear necessary.

4. Its Execution.

When the budget has been sanctioned adequate machinery is required in order to give effect to it or to bring it into execution. The efficiency of the working of the Government Departments really depends upon how the budget is executed. The execution includes:—

- (a) Collection of the Revenue to the nearest amount estimated.
- (b) Deposits of the Collections into the Treasury and its working on sound financial lines.
- (c) Laying out of the methods of expenditure.
- (d) Maintenance of control over expenditure.
- (e) Preparing accounts and.
- (f) Subjecting both income and expenditure accounts to careful audit:

These six ingredients constituting the execution of the budget will now be taken up

one by one and dealt with in some detail.

(a) Collection of Revenue.

In the early days of society collection of Government dues was comparatively a very simple matter, but as civilisation advanced matters became different and the revenue began to be farmed. The farmers made exactions, which caused loss to the Treasury in the long run and frequent hardship to the people. The civilised Governments therefore now appoint collectors and give them an organised and efficient staff to help them in their business which is first to determine what are the dues of the Government, and then to collect them with as little hardship as possible to the taxpayers.

(b) Treasury.

For purposes of administration a country is usually divided into a number of districts and at the headquarters of each district there is usually a Government Treasury. The Treasury is the place where the whole of the public receipts are deposited.

(c) Expenditure.

In making the expenditure the Government officers have to be very careful. There are detailed rules to ensure correctness,

(d) Control.

Special care is required to be taken that expenditure incurred is an authorised expenditure. An expenditure is said to be authorised when it has met with two requirements. The one is that the administrative officer, having powers to order that expenditure, has sanctioned that amount and the other is that there is provision in the budget and the required expenditure does not go beyond the allotment made in the budget.

The expenditure is thus kept in control and the head of the department keeps a keen watch to see that the authorised amounts are not exceeded.

(e) Accounts.

The receipts and payment made at the Treasury are then computed into monthly accounts, which are then submitted to higher

Accounts authority. This office goes into each item of receipt and payment, classifies them under the head of accounts to which each belongs and this process is carried out in great details. It then compiles one consolidated monthly account and thus month by month the receipts and expenditure are computed. At the end of the year an yearly account is made from them and it is then presented to the highest Accounts authority.

(f) Audit.

The purpose of audit is to obtain satisfaction that the account rendered represents the exact state of affairs.

The main object as regards receipts is to see that all sums receiptable are duly received and recorded by the proper officer.

As regards payment, it is to see that the expenditure is duly authorised, acknowledged and recorded. It would thus be seen how carefully the Government officers have to execute the budget.

5. Revised Estimate and Reappropriation.

During the progress of a financial year it may sometimes be found that the grants under some head are insufficient while under others they are unnecessarily high. The estimates are then revised and the former are then supplemented by reappropriations from the latter and thus the expenditure on the whole is kept within the limits set at the time of sanctioning the budget.

(Recipitulation) Of all branches of administration, that of the finance is the most difficult to deal with. The old system of adjusting expenditure to income has given place to new, and more complex system of determining the expenditure first and then raising the income sufficiently to cover it has come into vogue in modern administrations. Expenditure has been classified as primary and secondary. The former embraces all those budget heads, which are necessary to be provided for in order to make existence possible, while the latter includes all other heads, some of which are as important as those of the first differing from them only in the technical assignment of place.

The income of a state has been classified under four heads and that from taxation being very important and full of technicalities has been given a more elaborate description than others.

When an emergency of an extraordinary nature comes into existence a public loan becomes necessary to be raised.

Then has followed Financial Administration the most important and the practical part of the subject of public Finance. Herein are discussed the budget, its preparation, sanction and execution. Revised estimates and reappropriations have also been noticed.

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